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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The 1969 Soviet Defense Budget

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SR IM 69-2
January 1969

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
13 January 1968

INTELLIGENCE MEMORANDUM

The 1969 Soviet Defense Budget

Summary

Soviet spending on defense and space programs in 1969 probably will increase at a more moderate rate than that indicated by the recent Soviet budgetary announcement. Total Soviet expenditures on observed and estimated military and space programs, including R&D, will probably amount to about 20.4 billion rubles in 1969, compared with about 20.0 billion rubles in 1968.

The Soviets, in contrast, announced an increase of one billion rubles--or six percent--in defense expenditures, as well as a 13 to 14 percent growth in expenditures for "science," which is the category believed to cover much of the military R&D and space effort as well as civilian scientific endeavors.

Spending for strategic offensive programs in 1969 is expected to remain at about the 1968 level. ICBM expenditures are declining as the SS-9 and SS-11 deployment programs draw to a close. This decline probably will be offset, however, by increased outlays for new MRBM/IRBM and submarine-launched ballistic-missile systems.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Strategic Research and coordinated with the Offices of Current Intelligence, Economic Research, and National Estimates.

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Expenditures for strategic defensive systems are expected to increase slightly, owing mainly to the deployment of new interceptor aircraft. Spending for ABM defense around Moscow and the SA-5 SAM system is expected to remain at about the 1968 levels.

Expenditures currently projected for general purpose force programs also show only a modest increase in 1969. The Czechoslovak crisis and the Middle East conflict probably have increased pressures to augment equipment holdings and improve operational readiness levels of the general purpose forces, however, and actual expenditures for this mission could go beyond present projections.

The Soviets are expected to increase expenditures for military R&D and space--the category which has been responsible for most of the long-term growth in Soviet defense and space spending--by about ten percent in 1969. Major R&D programs for strategic systems--an improved ABM system and multiple warheads for ICBM's--are already under way, and rising expenditures for space are anticipated.

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The Defense Budget and Military Programs

1. On 10 December the USSR announced a planned 1969 defense budget of 17.7 billion rubles--an increase of six percent over the 16.7 billion rubles announced for 1968. This is a considerably smaller increase than the 15-percent boost for 1968 announced in 1967, but it does, on the surface, imply a continued increase in Soviet military effort.
2. It seems clear now, however, that Soviet military capabilities were not in fact augmented during 1968 to the extent implied by the announced 15-percent increase. Similarly, current estimates of 1969 military forces and programs do not indicate a real increase of six percent in defense spending.
3. Total defense and space expenditures are expected to grow in 1969--for the fifth straight year--and to reach a record high for the fourth year in a row. The expected growth in 1969, however, is almost entirely attributable to an increase in military R&D and space spending. It is believed that these expenditures--as well as outlays for civilian research and development--are included in the science category of the budget. The USSR announced that expenditures for science are expected to reach "almost 9 billion rubles" in 1969, an increase of about one billion rubles, or 13 to 14 percent, over 1968.
4. The announced Soviet defense budget omits any detail--only a total figure is released annually. The details of Soviet defense spending are estimated by costing observed and estimated military activity. These expenditure estimates result from a step-by-step process of building up the costs of individual military forces and programs from available intelligence information. These independently derived estimates permit analysis of the structure of Soviet expenditures and the detection of shifts in emphasis among the various programs and missions over time.

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Table 1

Soviet Expenditures for Defense

	Billion Rubles						
	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
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Planned	11.2	9.6	12.8	13.4	14.5	16.7	17.7
Actual	10.7	9.3	12.8	13.4	14.5	16.7	
Estimated Actual**	16.4	15.0	17.1	18.5	19.6	20.0	20.4

* Expressed in current prices.

** Expressed in 1955 prices. Includes expenditures for military RDTE&S (research, development, test, evaluation, and space programs. It is believed that these programs are not covered by the announced defense budget, but are financed almost entirely from the budget allocation for science.

5. The general trends in the Soviets' announced defense budget and the US estimates of their defense spending have been fairly consistent, but there have been significant differences in the sizes of annual changes--as in 1968 and 1969 (see Table 1, above). The differences cannot be fully reconciled, but there are certain considerations that can account for most of them.

6. The intelligence estimates are designed primarily to measure the costs of programs and activities that contribute directly to military capabilities--i.e., procurement of equipment, construction of facilities, personnel, operation and maintenance, and research and development. They do not include the costs of such programs as military aid and commodity stockpiling. The Soviet defense budget, however, is believed to include the costs of military aid programs and may include some expenditures for commodity stockpiling.

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7. Military aid to North Vietnam and the Middle East may account for some of the 1968 and 1969 budget increases. The impact of aid programs on the budget is difficult to evaluate. Even if the military aid programs are included in the budget--as is believed--no information is available on the budgetary procedures the Soviets use in accounting for these programs.

8. If the aid is from stockpiles or used equipment, virtually no outlays are necessary at the time of delivery. When the equipment is subsequently replaced, however, a real cost is involved and, if the replacement is a later, more advanced model, the costs could even be greater than the value of the goods provided in the aid program. Furthermore, the timing of the replacement of equipment need not occur simultaneously with the granting of aid.

9. Although the largest portion of the estimated \$450 million worth of equipment provided to the Arabs after the June 1967 conflict was shipped in 1967, the replenishing of the stockpile and the cost of doing so were in all likelihood delayed at least until 1968.

10. Widespread changes in the government-controlled price structure, which is a central feature of the Soviet economy, occur infrequently, but they provide another basis for differences between the announced budget and the intelligence estimates of expenditures.

11. The intelligence estimates are calculated in constant price terms so that changes over time in any given expenditure series will reflect real changes in the magnitude of programs rather than the artificial effects of changing prices. The announced Soviet defense budget, on the other hand, is expressed in current prices and therefore includes the effects of price changes.

12. A major revision of Soviet wholesale prices was introduced on 1 July 1967. This was the first major revision in over ten years. Analysis of the specific price changes indicates that the intelligence estimate of total Soviet defense and space spending in 1968 would be on the order of a billion or more rubles higher if calculated in the new prices.

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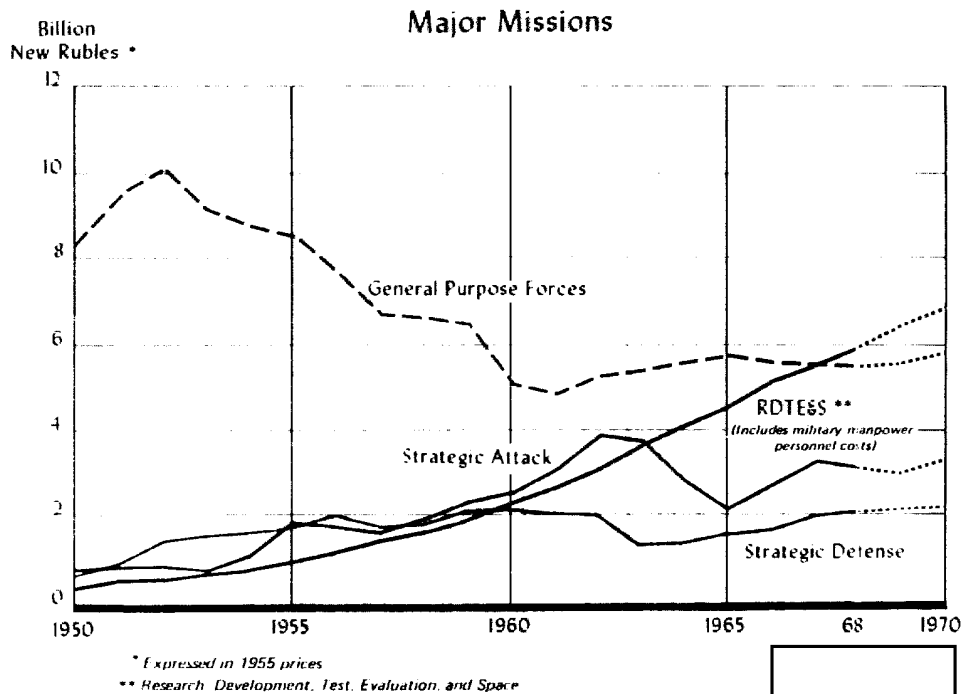
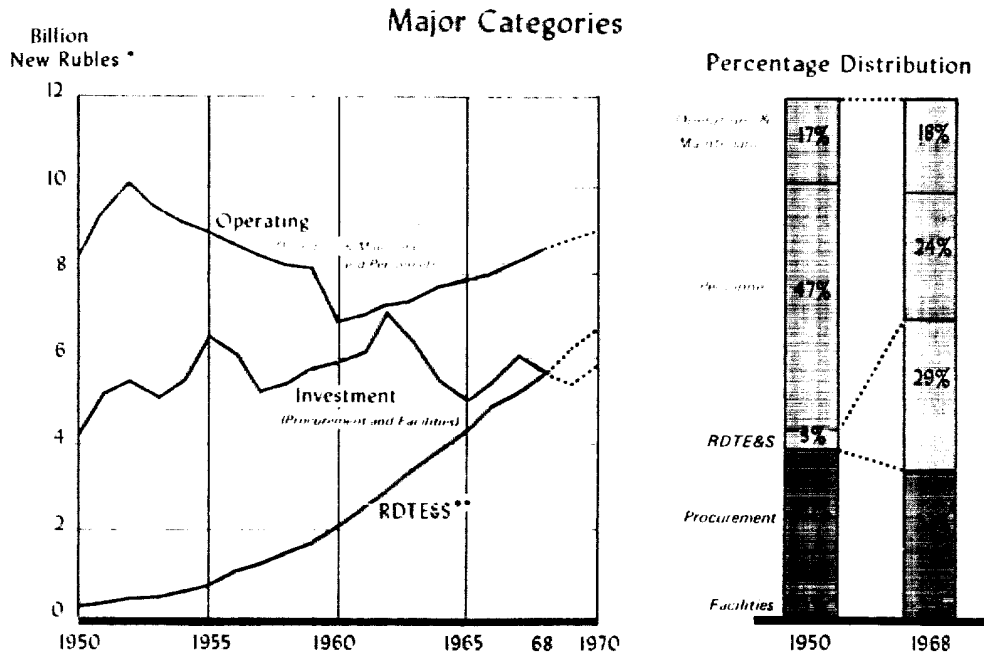
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ESTIMATED SOVIET DEFENSE EXPENDITURES, 1950-1970



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22. In 1955, production and deployment of the first Soviet strategic bomber strongly affected spending. Increases in 1961 and 1962, which occurred during periods of tension over Berlin and Cuba, stemmed largely from efforts to build up the USSR's force of medium- and intermediate-range ballistic missiles. The relatively large overall increases of 1966 through 1968 were forced by the decision to undertake simultaneous programs to deploy new strategic offensive and defensive systems.

23. Table 2, below, presents a comparison of the total military effort in the US with that in the USSR in dollar terms for 1968. Before the US involvement in Vietnam, Soviet military and space spending generally averaged about 85 percent of comparable US outlays. When the Soviet effort is measured in dollars, it appears that the USSR is currently spending somewhat more than the US for strategic offense, more than three times as much for strategic defense, about the same amount for space and military research and development, but only about three-fourths as much as the US in total. US spending for general purpose forces and for command and general support, where the impact of the costs of Vietnam is strongest, is nearly two times the Soviet outlays.

Table 2

Military and Space Expenditures in the US and the USSR
1968

	US	USSR
	<u>Billion Dollars</u>	
Strategic offensive forces	4.8	6.5
Strategic defensive forces	1.7	5.6
General purpose forces	32.6	16.4
RDTE&S	14.3	14.2
Command and general support	26.7	16.0
Total	<u>80.1</u>	<u>58.7</u>

Note: The figures for Soviet spending show the general size of various programs in terms of what they would cost in the United States. Data for the US are for the fiscal year in current dollars--for the USSR, calendar year in 1966 dollars.

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Strategic Forces

24. Since 1965, expenditures for strategic forces have grown about 40 percent, most of which is accounted for by the ICBM and SAM programs. Spending for these two programs combined in 1968 was about 80 percent higher than it was in 1965.

25. In 1968 the largest strategic programs in spending terms were the SS-9 and SS-11 ICBM systems, which together accounted for about 1.5 billion rubles (the equivalent of \$2.7 billion). The largest defensive program, and the only other strategic system with outlays of more than half a billion rubles, was the SA-2, with expenditures of about 570 million rubles (\$1.7 billion). The impact of the ICBM spending differs from that of the SA-2, however, because 90 percent of the ICBM spending is for procurement and construction whereas about two-thirds of the SA-2 expenditures are for operating costs.

26. Spending for other major strategic weapon programs being deployed in 1968 includes about 130 million rubles (\$220 million) for the ABM system around Moscow; about 350 million rubles (\$750 million) for the Tallinn (SA-5) missile system; about 260 million rubles (\$740 million) for ballistic-missile submarines; and about 310 million rubles (\$810 million) for the Fiddler and Flagon interceptor aircraft.

General Purpose and Command and General Support

27. Annual expenditures for general purpose forces and for the command and general support establishment together over the last few years have averaged about 8.7 billion rubles (more than \$30 billion). Annual outlays for these forces have grown only slightly in recent years, resulting in a reduction of their share of the rising total for all forces.

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The Outlook: 1969 Defense Spending

28. Total Soviet defense and space spending is expected to reach a record level of 20.4 billion rubles (\$60.4 billion) in 1969. Soviet decisions on defense spending in 1969 probably were influenced by two major policy decisions made by the USSR during the past year--the agreement to initiate arms limitation talks with the US, and the decision to invade Czechoslovakia.

29. The decision to investigate arms limitation may have enabled the USSR to defer the initiation of major new strategic arms production and deployment programs--particularly a new ABM system and expansion and upgrading of its ICBM forces. The continuing high rate of growth in the announced expenditures for science suggests that the Soviets have decided to invest heavily in research and development on new strategic systems while deferring--at least for the present--the decision to procure and deploy them.

30. The invasion of Czechoslovakia--combined with other events like the Vietnam war, the Arab-Israeli conflict, and the buildup along the Chinese border--has underscored the USSR's need to improve the capabilities of its conventional forces.

Strategic Forces

31. On the basis of current projections, little change is anticipated in 1969 in total expenditures for strategic programs. Major ICBM deployment programs are nearing completion, and the decline in outlays for ICBM programs which began in 1968 is expected to continue through 1970. Initiation of a new deployment program for intermediate- and medium-range ballistic missiles estimated to be scheduled for 1968-71 and rising expenditures for ballistic-missile submarines will offset most of the decline in ICBM programs and keep 1969 expenditures for strategic offensive programs near the 1968 level.

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32. Strategic defensive programs presently under way or projected for the USSR will require slightly increasing expenditures, at least through 1970, due mainly to rising costs in the procurement of new interceptor aircraft. Outlays for ABM defense around Moscow and the SA-5 SAM system in 1969 are expected to remain at about their 1968 levels.

General Purpose Forces and Command and General Support Programs

33. Although only a slight increase is indicated by current projections, expenditures for general purpose forces and command and support could rise substantially during 1969. Pressures have been growing in the USSR for upgrading the capabilities of the general purpose forces as well as the command and general support establishment. These pressures probably have been held in check by the cost of developing and deploying strategic systems. With several key strategic programs in the terminal phase, however, some of the pent-up demands could be met during 1969. In fact, manpower and spending for the ground forces have both increased slightly over the past few years for the first time since the Korean War, and both are expected to increase at a slightly higher rate for the next few years.

34. If Soviet efforts to improve the mobility or limited war potential of the Soviet general purpose forces in 1969 were to develop faster than now anticipated, they could affect many programs and would raise outlays by more than current projections. By their nature, improvements in the general purpose forces are usually more difficult to identify and measure than improvements in the strategic forces. However, if the Soviets initiate improvement programs large enough to have a significant effect on expenditures in 1969, they probably would not escape detection for very long.

Military Research and Development and Space

35. Real expenditures for military R&D and space programs are expected to increase by about ten percent in 1969. It is anticipated that development efforts on new strategic systems will continue.

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36. Even if the Soviets hope for an agreement with the US limiting the deployment of strategic weapons, they could not plan for it at this stage, and they almost certainly will continue to develop new systems to keep future strategic options open. Recent evidence indicates that development programs for improved ABM systems and multiple-warhead ICBM systems are already under way. The space program will also claim some of the increase in R&D expenditures.

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The Soviets are expected to increase expenditures for military R&D and space--the category which has been responsible for most of the long-term growth in Soviet defense and space spending--by about ten percent in 1969. Major R&D programs for strategic systems--an improved ABM system and multiple warheads for ICBM's--are already under way, and rising expenditures for space are anticipated.

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The Defense Budget and Military Programs

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2. It seems clear now, however, that Soviet military capabilities were not in fact augmented during 1968 to the extent implied by the announced 15-percent increase. Similarly, current estimates of 1969 military forces and programs do not indicate a real increase of six percent in defense spending.

3. Total defense and space expenditures are expected to grow in 1969--for the fifth straight year--and to reach a record high for the fourth year in a row. The expected growth in 1969, however, is almost entirely attributable to an increase in military R&D and space spending. It is believed that these expenditures--as well as outlays for civilian research and development--are included in the science category of the budget. The USSR announced that expenditures for science are expected to reach "almost 9 billion rubles" in 1969, an increase of about one billion rubles, or 13 to 14 percent, over 1968.

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Estimated Actual**	16.4	15.0	17.1	18.5	19.6	20.0	20.4

* Expressed in current prices
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5. The general trends in the Soviets' announced defense budget and the US estimates of their defense spending have been fairly consistent, but there have been significant differences in the sizes of annual changes--as in 1968 and 1969 (see Table 1, above). The differences cannot be fully reconciled, but there are certain considerations that can account for most of them.

6. The intelligence estimates are designed primarily to measure the costs of programs and activities that contribute directly to military capabilities--i.e., procurement of equipment, construction of facilities, personnel, operation and maintenance, and research and development. They do not include the costs of such programs as military aid and commodity stockpiling. The Soviet defense budget, however, is believed to include the costs of military aid programs and may include some expenditures for commodity stockpiling.

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9. Although the largest portion of the estimated \$450 million worth of equipment provided to the Arabs after the June 1967 conflict was shipped in 1967, the replenishing of the stockpile and the cost of doing so were in all likelihood delayed at least until 1968.

10. Widespread changes in the government-controlled price structure, which is a central feature of the Soviet economy, occur infrequently, but they provide another basis for differences between the announced budget and the intelligence estimates of expenditures.

11. The intelligence estimates are calculated in constant price terms so that changes over time in any given expenditure series will reflect real changes in the magnitude of programs rather than the artificial effects of changing prices. The announced Soviet defense budget, on the other hand, is expressed in current prices and therefore includes the effects of price changes.

12. A major revision of Soviet wholesale prices was introduced on 1 July 1967. This was the first major revision in over ten years. Analysis of the specific price changes indicates that the intelligence estimate of total Soviet defense and space spending in 1968 would be on the order of a billion or more rubles higher if calculated in the new prices.

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13. A large portion of the announced 15-percent increase in the 1968 defense budget may have been the result of price changes rather than real increases in defense effort. Further price increases which might affect military spending--such as increased costs of construction--are expected to be introduced in 1969. Although there is not yet sufficient evidence to estimate the net effect of new price increases, it appears that at least some of the six-percent increase announced for 1969 may again be the result of price changes.

14. The Soviets have never fully explained just what the published budget covers, and its scope clearly has changed over time. The announced Soviet defense budget has a political as well as an economic function. It serves to inform the Soviet public and the party and government cadres of the leadership's intentions with regard to the allocations of resources. The defense budget is also used to communicate to the world at large the image which the USSR wishes to project of its posture in international relations.

15. A final consideration that casts doubt on the utility of the announced defense budget as a precise indicator of changes in military effort is the consistency between the planned expenditures announced before the year of spending begins and the actual expenditures announced at the end of the year. This is the sixth consecutive year when the announced planned and actual expenditures were the same. (Prior to 1963, actual budget expenditures were typically announced as being somewhat less than the planned budget.)

16. The consistent equality in announcements of planned and actual budgets suggests that the Soviets themselves do not use the defense budget as a precise measure of their expenditure for defense activities. Moreover, it is highly unlikely that they could accurately foresee a year in advance all of the events that would require outlays for defense activities. Other sources of funds probably are available to cover the costs of unforeseen contingencies such as the invasion of Czechoslovakia

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in 1968, which is estimated to have cost the Soviets about 100 million rubles.*

Trends in Defense Expenditures

17. Of the major categories included in total Soviet defense expenditures shown in the chart (next page), RDTE&S has been the element having the largest and most consistent long-term growth since 1950. Operating expenditures--personnel, and operation and maintenance--for the Soviet military forces have been more stable. Investment programs--procurement of equipment and construction of facilities--for new weapons deployment have caused most of the year-to-year fluctuations.

18. Since 1950, RDTE&S has grown from about three percent of total spending to nearly 30 percent in 1968. Research and development for strategic systems and spending for space programs have been largely responsible for this growth.

19. Average operating costs per man of the Soviet armed forces have increased by about 65 percent since 1950, reflecting greater reliance on hardware-intensive military forces. This increase has been largely offset by manpower reductions in the ground forces. Personnel expenditures have declined as a share of total military expenditures from nearly one-half in 1950 to about one-fourth in 1968.

20. Total operating expenditures have gradually increased in the last few years as new advanced weapon programs have reached full deployment levels. At the same time, operational expenses in the general purpose forces--for example, increased naval activity and the deployment of more army units in the Far East--appear to be on the rise.

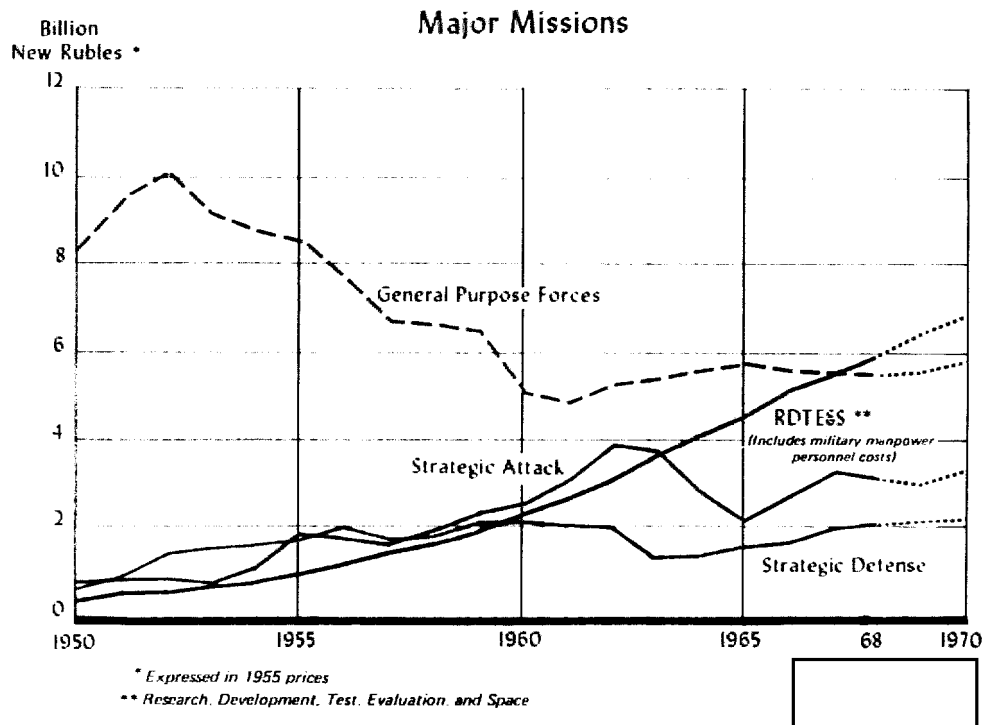
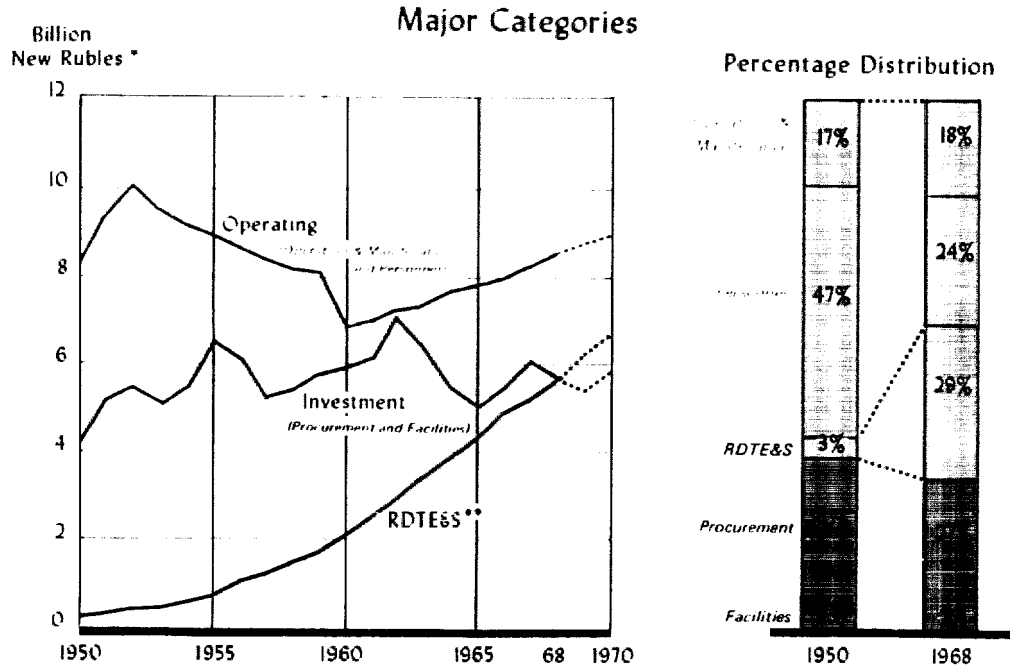
21. Since the Korean War, most of the sharp rises in Soviet military spending have been caused primarily by the production and deployment of new strategic weapon systems. In any one year, only one or two strategic programs have been responsible for most of the increase.

**See SR IM 69-1, Military Costs to the Soviets of the Invasion of Czechoslovakia, January 1969*

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ESTIMATED SOVIET DEFENSE EXPENDITURES, 1950-1970



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22. In 1955, production and deployment of the first Soviet strategic bomber strongly affected spending. Increases in 1961 and 1962, which occurred during periods of tension over Berlin and Cuba, stemmed largely from efforts to build up the USSR's force of medium- and intermediate-range ballistic missiles. The relatively large overall increases of 1966 through 1968 were forced by the decision to undertake simultaneous programs to deploy new strategic offensive and defensive systems.

23. Table 2, below, presents a comparison of the total military effort in the US with that in the USSR in dollar terms for 1968. Before the US involvement in Vietnam, Soviet military and space spending generally averaged about 85 percent of comparable US outlays. When the Soviet effort is measured in dollars, it appears that the USSR is currently spending somewhat more than the US for strategic offense, more than three times as much for strategic defense, about the same amount for space and military research and development, but only about three-fourths as much as the US in total. US spending for general purpose forces and for command and general support, where the impact of the costs of Vietnam is strongest, is nearly two times the Soviet outlays.

Table 2

Military and Space Expenditures in the US and the USSR
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25. In 1968 the largest strategic programs in spending terms were the SS-9 and SS-11 ICBM systems, which together accounted for about 1.5 billion rubles (the equivalent of \$2.7 billion). The largest defensive program, and the only other strategic system with outlays of more than half a billion rubles, was the SA-2, with expenditures of about 570 million rubles (\$1.7 billion). The impact of the ICBM spending differs from that of the SA-2, however, because 90 percent of the ICBM spending is for procurement and construction whereas about two-thirds of the SA-2 expenditures are for operating costs.

26. Spending for other major strategic weapon programs being deployed in 1968 includes about 130 million rubles (\$220 million) for the ABM system around Moscow; about 350 million rubles (\$750 million) for the Tallinn (SA-5) missile system; about 260 million rubles (\$740 million) for ballistic-missile submarines; and about 310 million rubles (\$810 million) for the Fiddler and Flagon interceptor aircraft.

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The Outlook: 1969 Defense Spending

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29. The decision to investigate arms limitation may have enabled the USSR to defer the initiation of major new strategic arms production and deployment programs--particularly a new ABM system and expansion and upgrading of its ICBM forces. The continuing high rate of growth in the announced expenditures for science suggests that the Soviets have decided to invest heavily in research and development on new strategic systems while deferring--at least for the present--the decision to procure and deploy them.

30. The invasion of Czechoslovakia--combined with other events like the Vietnam war, the Arab-Israeli conflict, and the buildup along the Chinese border--has underscored the USSR's need to improve the capabilities of its conventional forces.

Strategic Forces

31. On the basis of current projections, little change is anticipated in 1969 in total expenditures for strategic programs. Major ICBM deployment programs are nearing completion, and the decline in outlays for ICBM programs which began in 1968 is expected to continue through 1970. Initiation of a new deployment program for intermediate- and medium-range ballistic missiles estimated to be scheduled for 1968-71 and rising expenditures for ballistic-missile submarines will offset most of the decline in ICBM programs and keep 1969 expenditures for strategic offensive programs near the 1968 level.

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32. Strategic defensive programs presently under way or projected for the USSR will require slightly increasing expenditures, at least through 1970, due mainly to rising costs in the procurement of new interceptor aircraft. Outlays for ABM defense around Moscow and the SA-5 SAM system in 1969 are expected to remain at about their 1968 levels.

General Purpose Forces and Command and General Support Programs

33. Although only a slight increase is indicated by current projections, expenditures for general purpose forces and command and support could rise substantially during 1969. Pressures have been growing in the USSR for upgrading the capabilities of the general purpose forces as well as the command and general support establishment. These pressures probably have been held in check by the cost of developing and deploying strategic systems. With several key strategic programs in the terminal phase, however, some of the pent-up demands could be met during 1969. In fact, manpower and spending for the ground forces have both increased slightly over the past few years for the first time since the Korean War, and both are expected to increase at a slightly higher rate for the next few years.

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Military Research and Development and Space

35. Real expenditures for military R&D and space programs are expected to increase by about ten percent in 1969. It is anticipated that development efforts on new strategic systems will continue.

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36. Even if the Soviets hope for an agreement with the US limiting the deployment of strategic weapons, they could not plan for it at this stage, and they almost certainly will continue to develop new systems to keep future strategic options open. Recent evidence indicates that development programs for improved ABM systems and multiple-warhead ICBM systems are already under way. The space program will also claim some of the increase in R&D expenditures.

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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The 1969 Soviet Defense Budget

Secret

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SR IM 69-2
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
13 January 1968

INTELLIGENCE MEMORANDUM

The 1969 Soviet Defense Budget

Summary

Soviet spending on defense and space programs in 1969 probably will increase at a more moderate rate than that indicated by the recent Soviet budgetary announcement. Total Soviet expenditures on observed and estimated military and space programs, including R&D, will probably amount to about 20.4 billion rubles in 1969, compared with about 20.0 billion rubles in 1968.

The Soviets, in contrast, announced an increase of one billion rubles--or six percent--in defense expenditures, as well as a 13 to 14 percent growth in expenditures for "science," which is the category believed to cover much of the military R&D and space effort as well as civilian scientific endeavors.

Spending for strategic offensive programs in 1969 is expected to remain at about the 1968 level. ICBM expenditures are declining as the SS-9 and SS-11 deployment programs draw to a close. This decline probably will be offset, however, by increased outlays for new MRBM/IRBM and submarine-launched ballistic-missile systems.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Strategic Research and coordinated with the Offices of Current Intelligence, Economic Research, and National Estimates.

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Expenditures for strategic defensive systems are expected to increase slightly, owing mainly to the deployment of new interceptor aircraft. Spending for ABM defense around Moscow and the SA-5 SAM system is expected to remain at about the 1968 levels.

Expenditures currently projected for general purpose force programs also show only a modest increase in 1969. The Czechoslovak crisis and the Middle East conflict probably have increased pressures to augment equipment holdings and improve operational readiness levels of the general purpose forces, however, and actual expenditures for this mission could go beyond present projections.

The Soviets are expected to increase expenditures for military R&D and space--the category which has been responsible for most of the long-term growth in Soviet defense and space spending--by about ten percent in 1969. Major R&D programs for strategic systems--an improved ABM system and multiple warheads for ICBM's--are already under way, and rising expenditures for space are anticipated.

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The Defense Budget and Military Programs

1. On 10 December the USSR announced a planned 1969 defense budget of 17.7 billion rubles--an increase of six percent over the 16.7 billion rubles announced for 1968. This is a considerably smaller increase than the 15-percent boost for 1968 announced in 1967, but it does, on the surface, imply a continued increase in Soviet military effort.
2. It seems clear now, however, that Soviet military capabilities were not in fact augmented during 1968 to the extent implied by the announced 15-percent increase. Similarly, current estimates of 1969 military forces and programs do not indicate a real increase of six percent in defense spending.
3. Total defense and space expenditures are expected to grow in 1969--for the fifth straight year--and to reach a record high for the fourth year in a row. The expected growth in 1969, however, is almost entirely attributable to an increase in military R&D and space spending. It is believed that these expenditures--as well as outlays for civilian research and development--are included in the science category of the budget. The USSR announced that expenditures for science are expected to reach "almost 9 billion rubles" in 1969, an increase of about one billion rubles, or 13 to 14 percent, over 1968.
4. The announced Soviet defense budget omits any detail--only a total figure is released annually. The details of Soviet defense spending are estimated by costing observed and estimated military activity. These expenditure estimates result from a step-by-step process of building up the costs of individual military forces and programs from available intelligence information. These independently derived estimates permit analysis of the structure of Soviet expenditures and the detection of shifts in emphasis among the various programs and missions over time.

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Table 1

Soviet Expenditures for Defense

	Billion Rubles						
	1955	1960	1965	1966	1967	1968	1969
Announced Soviet Defense Budgets*							
Planned	11.2	9.6	12.8	13.4	14.5	16.7	17.7
Actual	10.7	9.3	12.8	13.4	14.5	16.7	
Estimated Actual**	16.4	15.0	17.1	18.5	19.6	20.0	20.4

* Expressed in current prices

** Expressed in 1955 prices. Includes expenditures for military RDTE&S (research, development, test, evaluation, and space) programs. It is believed that these programs are not covered by the announced defense budget, but are financed almost entirely from the budget allocation for science

5. The general trends in the Soviets' announced defense budget and the US estimates of their defense spending have been fairly consistent, but there have been significant differences in the sizes of annual changes--as in 1968 and 1969 (see Table 1, above). The differences cannot be fully reconciled, but there are certain considerations that can account for most of them.

6. The intelligence estimates are designed primarily to measure the costs of programs and activities that contribute directly to military capabilities--i.e., procurement of equipment, construction of facilities, personnel, operation and maintenance, and research and development. They do not include the costs of such programs as military aid and commodity stockpiling. The Soviet defense budget, however, is believed to include the costs of military aid programs and may include some expenditures for commodity stockpiling.

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7. Military aid to North Vietnam and the Middle East may account for some of the 1968 and 1969 budget increases. The impact of aid programs on the budget is difficult to evaluate. Even if the military aid programs are included in the budget--as is believed--no information is available on the budgetary procedures the Soviets use in accounting for these programs.

8. If the aid is from stockpiles or used equipment, virtually no outlays are necessary at the time of delivery. When the equipment is subsequently replaced, however, a real cost is involved and, if the replacement is a later, more advanced model, the costs could even be greater than the value of the goods provided in the aid program. Furthermore, the timing of the replacement of equipment need not occur simultaneously with the granting of aid.

9. Although the largest portion of the estimated \$450 million worth of equipment provided to the Arabs after the June 1967 conflict was shipped in 1967, the replenishing of the stockpile and the cost of doing so were in all likelihood delayed at least until 1968.

10. Widespread changes in the government-controlled price structure, which is a central feature of the Soviet economy, occur infrequently, but they provide another basis for differences between the announced budget and the intelligence estimates of expenditures.

11. The intelligence estimates are calculated in constant price terms so that changes over time in any given expenditure series will reflect real changes in the magnitude of programs rather than the artificial effects of changing prices. The announced Soviet defense budget, on the other hand, is expressed in current prices and therefore includes the effects of price changes.

12. A major revision of Soviet wholesale prices was introduced on 1 July 1967. This was the first major revision in over ten years. Analysis of the specific price changes indicates that the intelligence estimate of total Soviet defense and space spending in 1968 would be on the order of a billion or more rubles higher if calculated in the new prices.

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13. A large portion of the announced 15-percent increase in the 1968 defense budget may have been the result of price changes rather than real increases in defense effort. Further price increases which might affect military spending--such as increased costs of construction--are expected to be introduced in 1969. Although there is not yet sufficient evidence to estimate the net effect of new price increases, it appears that at least some of the six-percent increase announced for 1969 may again be the result of price changes.

14. The Soviets have never fully explained just what the published budget covers, and its scope clearly has changed over time. The announced Soviet defense budget has a political as well as an economic function. It serves to inform the Soviet public and the party and government cadres of the leadership's intentions with regard to the allocations of resources. The defense budget is also used to communicate to the world at large the image which the USSR wishes to project of its posture in international relations.

15. A final consideration that casts doubt on the utility of the announced defense budget as a precise indicator of changes in military effort is the consistency between the planned expenditures announced before the year of spending begins and the actual expenditures announced at the end of the year. This is the sixth consecutive year when the announced planned and actual expenditures were the same. (Prior to 1963, actual budget expenditures were typically announced as being somewhat less than the planned budget.)

16. The consistent equality in announcements of planned and actual budgets suggests that the Soviets themselves do not use the defense budget as a precise measure of their expenditure for defense activities. Moreover, it is highly unlikely that they could accurately foresee a year in advance all of the events that would require outlays for defense activities. Other sources of funds probably are available to cover the costs of unforeseen contingencies such as the invasion of Czechoslovakia

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in 1968, which is estimated to have cost the Soviets about 100 million rubles.*

Trends in Defense Expenditures

17. Of the major categories included in total Soviet defense expenditures shown in the chart (next page), RDTE&S has been the element having the largest and most consistent long-term growth since 1950. Operating expenditures--personnel, and operation and maintenance--for the Soviet military forces have been more stable. Investment programs--procurement of equipment and construction of facilities--for new weapons deployment have caused most of the year-to-year fluctuations.

18. Since 1950, RDTE&S has grown from about three percent of total spending to nearly 30 percent in 1968. Research and development for strategic systems and spending for space programs have been largely responsible for this growth.

19. Average operating costs per man of the Soviet armed forces have increased by about 65 percent since 1950, reflecting greater reliance on hardware-intensive military forces. This increase has been largely offset by manpower reductions in the ground forces. Personnel expenditures have declined as a share of total military expenditures from nearly one-half in 1950 to about one-fourth in 1968.

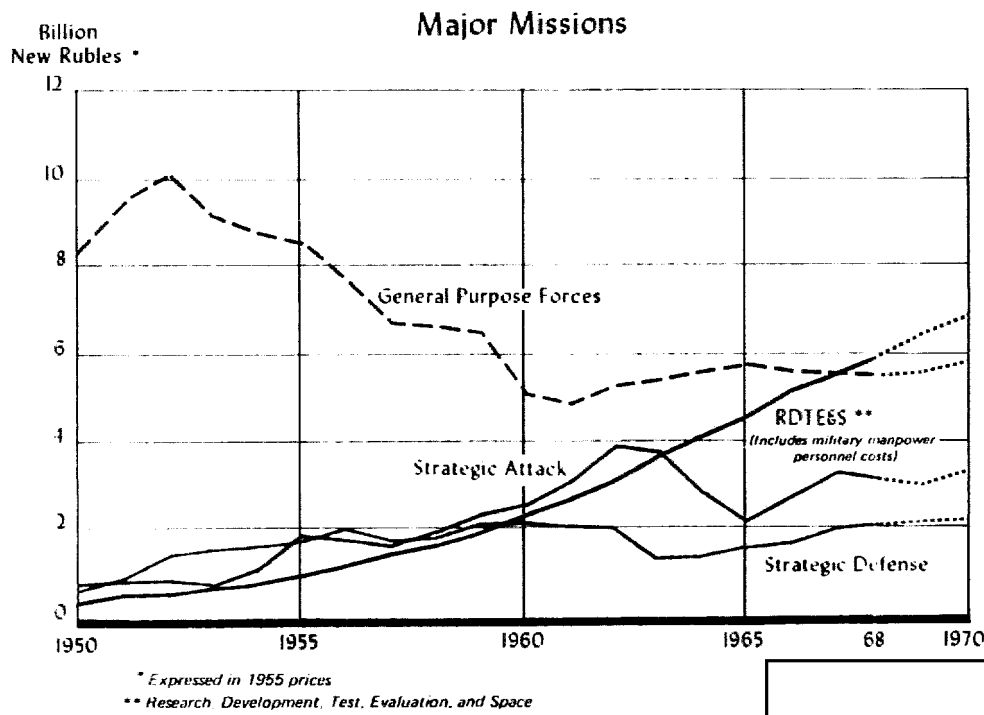
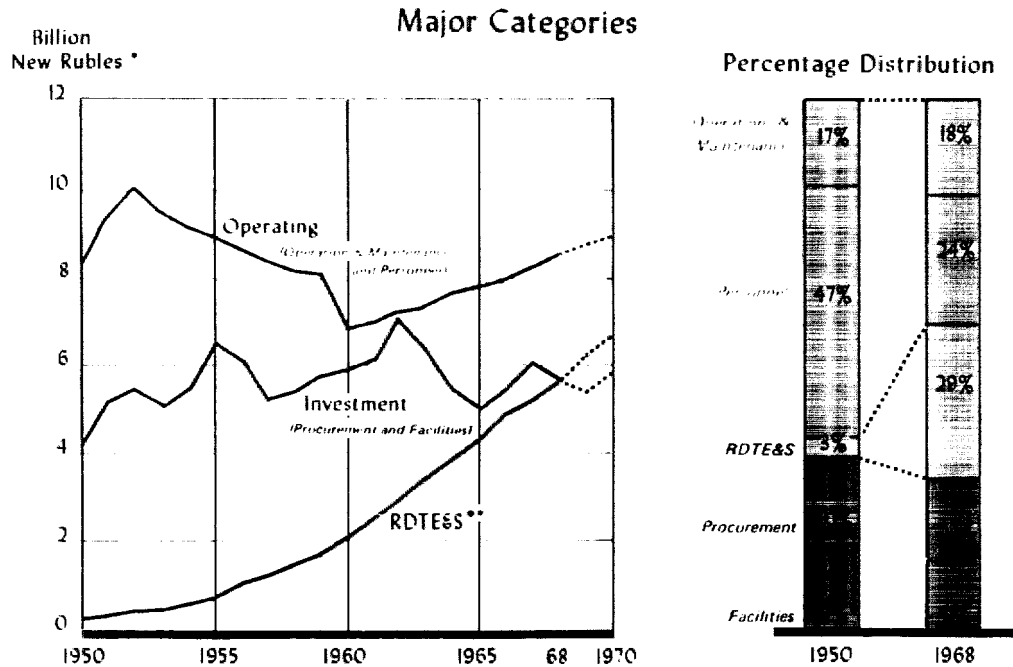
20. Total operating expenditures have gradually increased in the last few years as new advanced weapon programs have reached full deployment levels. At the same time, operational expenses in the general purpose forces--for example, increased naval activity and the deployment of more army units in the Far East--appear to be on the rise.

21. Since the Korean War, most of the sharp rises in Soviet military spending have been caused primarily by the production and deployment of new strategic weapon systems. In any one year, only one or two strategic programs have been responsible for most of the increase.

*See SR IM 69-1, Military Costs to the Soviets of the Invasion of Czechoslovakia, January 1969 []

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ESTIMATED SOVIET DEFENSE EXPENDITURES, 1950-1970



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22. In 1955, production and deployment of the first Soviet strategic bomber strongly affected spending. Increases in 1961 and 1962, which occurred during periods of tension over Berlin and Cuba, stemmed largely from efforts to build up the USSR's force of medium- and intermediate-range ballistic missiles. The relatively large overall increases of 1966 through 1968 were forced by the decision to undertake simultaneous programs to deploy new strategic offensive and defensive systems.

23. Table 2, below, presents a comparison of the total military effort in the US with that in the USSR in dollar terms for 1968. Before the US involvement in Vietnam, Soviet military and space spending generally averaged about 85 percent of comparable US outlays. When the Soviet effort is measured in dollars, it appears that the USSR is currently spending somewhat more than the US for strategic offense, more than three times as much for strategic defense, about the same amount for space and military research and development, but only about three-fourths as much as the US in total. US spending for general purpose forces and for command and general support, where the impact of the costs of Vietnam is strongest, is nearly two times the Soviet outlays.

Table 2

Military and Space Expenditures in the US and the USSR
1968

	US	USSR
	<u>Billion Dollars</u>	<u>Billion Dollars</u>
Strategic offensive forces	4.8	6.5
Strategic defensive forces	1.7	5.6
General purpose forces	32.6	16.4
RDTE&S	14.3	14.2
Command and general support	26.7	16.0
Total	<u>80.1</u>	<u>58.7</u>

Note: The figures for Soviet spending show the general size of various programs in terms of what they would cost in the United States. Data for the US are for the fiscal year in current dollars--for the USSR, calendar year in 1966 dollars.

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Strategic Forces

24. Since 1965, expenditures for strategic forces have grown about 40 percent, most of which is accounted for by the ICBM and SAM programs. Spending for these two programs combined in 1968 was about 80 percent higher than it was in 1965.

25. In 1968 the largest strategic programs in spending terms were the SS-9 and SS-11 ICBM systems, which together accounted for about 1.5 billion rubles (the equivalent of \$2.7 billion). The largest defensive program, and the only other strategic system with outlays of more than half a billion rubles, was the SA-2, with expenditures of about 570 million rubles (\$1.7 billion). The impact of the ICBM spending differs from that of the SA-2, however, because 90 percent of the ICBM spending is for procurement and construction whereas about two-thirds of the SA-2 expenditures are for operating costs.

26. Spending for other major strategic weapon programs being deployed in 1968 includes about 130 million rubles (\$220 million) for the ABM system around Moscow; about 350 million rubles (\$750 million) for the Tallinn (SA-5) missile system; about 260 million rubles (\$740 million) for ballistic-missile submarines; and about 310 million rubles (\$810 million) for the Fiddler and Flagon interceptor aircraft.

General Purpose and Command and General Support

27. Annual expenditures for general purpose forces and for the command and general support establishment together over the last few years have averaged about 6.7 billion rubles (more than \$30 billion). Annual outlays for these forces have grown only slightly in recent years, resulting in a reduction of their share of the rising total for all forces.

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The Outlook: 1969 Defense Spending

28. Total Soviet defense and space spending is expected to reach a record level of 20.4 billion rubles (\$60.4 billion) in 1969. Soviet decisions on defense spending in 1969 probably were influenced by two major policy decisions made by the USSR during the past year--the agreement to initiate arms limitation talks with the US, and the decision to invade Czechoslovakia.

29. The decision to investigate arms limitation may have enabled the USSR to defer the initiation of major new strategic arms production and deployment programs--particularly a new ABM system and expansion and upgrading of its ICBM forces. The continuing high rate of growth in the announced expenditures for science suggests that the Soviets have decided to invest heavily in research and development on new strategic systems while deferring--at least for the present--the decision to procure and deploy them.

30. The invasion of Czechoslovakia--combined with other events like the Vietnam war, the Arab-Israeli conflict, and the buildup along the Chinese border--has underscored the USSR's need to improve the capabilities of its conventional forces.

Strategic Forces

31. On the basis of current projections, little change is anticipated in 1969 in total expenditures for strategic programs. Major ICBM deployment programs are nearing completion, and the decline in outlays for ICBM programs which began in 1968 is expected to continue through 1970. Initiation of a new deployment program for intermediate- and medium-range ballistic missiles estimated to be scheduled for 1968-71 and rising expenditures for ballistic-missile submarines will offset most of the decline in ICBM programs and keep 1969 expenditures for strategic offensive programs near the 1968 level.

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32. Strategic defensive programs presently under way or projected for the USSR will require slightly increasing expenditures, at least through 1970, due mainly to rising costs in the procurement of new interceptor aircraft. Outlays for ABM defense around Moscow and the SA-5 SAM system in 1969 are expected to remain at about their 1968 levels.

General Purpose Forces and Command and General Support Programs

33. Although only a slight increase is indicated by current projections, expenditures for general purpose forces and command and support could rise substantially during 1969. Pressures have been growing in the USSR for upgrading the capabilities of the general purpose forces as well as the command and general support establishment. These pressures probably have been held in check by the cost of developing and deploying strategic systems. With several key strategic programs in the terminal phase, however, some of the pent-up demands could be met during 1969. In fact, manpower and spending for the ground forces have both increased slightly over the past few years for the first time since the Korean War, and both are expected to increase at a slightly higher rate for the next few years.

34. If Soviet efforts to improve the mobility or limited war potential of the Soviet general purpose forces in 1969 were to develop faster than now anticipated, they could affect many programs and would raise outlays by more than current projections. By their nature, improvements in the general purpose forces are usually more difficult to identify and measure than improvements in the strategic forces. However, if the Soviets initiate improvement programs large enough to have a significant effect on expenditures in 1969, they probably would not escape detection for very long.

Military Research and Development and Space

35. Real expenditures for military R&D and space programs are expected to increase by about ten percent in 1969. It is anticipated that development efforts on new strategic systems will continue.

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36. Even if the Soviets hope for an agreement with the US limiting the deployment of strategic weapons, they could not plan for it at this stage, and they almost certainly will continue to develop new systems to keep future strategic options open. Recent evidence indicates that development programs for improved ABM systems and multiple-warhead ICBM systems are already under way. The space program will also claim some of the increase in R&D expenditures.

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